

THE LEONARD LETTER

*A weekly electronic newsletter about
California government, business and taxes*

*Bill Leonard, Member
State Board of Equalization*

April 9 & 16, 2007

QUOTE OF THE WEEK

*"Of the four wars in my lifetime, none came about because the U.S. was too strong."
--- Ronald Reagan*

AROUND THE STATE

*****Garamendi and Chiang Vote Against Inexpensive Power*****

What if one of the world's premier energy companies was offering to spend billions of their own capital to provide California with the fuel needed to generate inexpensive and almost zero emission electricity for the whole state? Sounds like a pretty good deal, does it not? In one of the most stupefying votes ever, the state Lands Commission voted last Monday to deny a state land lease to BHP Billiton for establishing a facility for liquefied natural gas 14 miles offshore from Port Hueneme.

The two members who opposed the project are Lt. Governor John Garamendi, and State Controller John Chiang who both apparently vote against the proposal due to environmental concerns. Almost by definition anything built by mankind causes pollution. The real questions are: (1) what are the alternatives, and (2) do the benefits outweigh the costs?

Garamendi alternatives are energy conservation, wind power, solar power, and expanding a Mexican natural gas plant to serve more Californians. Californians already do a better job of conserving energy than any other state in the union. The costs to do more are becoming prohibitive. Environmental groups are opposing wind and solar projects so I am not sure what new projects of these types he would ever favor. And then the idea that California should become more dependent on Mexico for its energy needs is self-inflicted economic impairment that would make energy even more expensive.

The so-called alternatives will not work. If Garamendi and Chiang were to be forthright in admitting that and recommending nuclear power as the alternative to this offshore natural gas plant, then at least we would have a real debate over real alternatives.

The second question is easier to answer because the costs of the do-nothing option would

literally kill the elderly and infirm who will be the victims of power blackouts. Unreliable energy will curb economic development as businesses migrate to areas where they can count on the power always being on. This failure to plan ahead and expand our energy infrastructure amounts to a tax increase on every Californian when electric and gas prices spike as individuals and companies compete with each other to buy a resource that has been made intentionally scarce.

The last round of power outages was called Gray-Outs in recognition of the then-Governor's bad decisions. The next round should be called Johns Without Gas in recognition of Chiang and Garamendi's creation of the energy crisis. P.S.: Thanks to the Governor's representative Anne Sheehan for making a good decision on behalf of all Californians.

*****New County Taxes on Alcohol?*****

Despite the record-breaking growth in county revenues in recent years, too much never seems to be enough. The State Senate is considering a bill to allow counties to tax “the privilege of consuming beer, wine, and distilled spirits.” SB 297, by Senator Gloria Romero, would allow county boards of supervisors to impose a new tax of up to 5% of the purchase price of such beverages for whatever purpose the supervisors might deem necessary, subject to approval by county voters.

Interestingly, the bill limits the new tax to alcohol “purchased in a retail sale for consumption on the premises of the seller,” so bar customers would pay the tax but liquor store customers would not. I do not drink, so this distinction makes no difference to me, but I wonder about the justification for treating the two kinds of sales so differently.

The Legislative Counsel Bureau has scored SB 297 as a majority vote bill, which means that the legislature's anti-tax Republicans cannot block it. If it becomes law, I am not looking forward to the county-by-county campaigns to adopt the new taxes. If history is any guide, we can expect supervisors to make generous promises they can not keep to the special interest groups that will fund the pro-tax campaigns. The campaigns will be full of deception and wild threats that vital services will be cut unless the new taxes are approved. Some things never change.

The other issue is the vote requirement. The bill allows a simple majority of voters to impose this tax on a narrow category of the population, those who consume alcohol at a bar or restaurant. Talk about taxation without representation. The vote requirement should be a two-thirds vote of the voters to make sure there is a consensus for this new tax. Should I really be allowed to vote on a new tax that I will never pay?

*****The Cost of Illegals*****

My friend Los Angeles County Supervisor Michael Antonovich released a stunning statistic last week: illegal immigrants and their families in L.A. County collect nearly half a billion dollars in welfare and food stamp allocations every year. Antonovich notes that this figure does not begin to touch on the amount of taxpayer money that is spent educating illegal immigrants. While L.A. might be the county most affected by illegal immigrants, imagine the size and scope of the

expense statewide. It is a stunning figure and the extrapolation is simply staggering. One of the reasons it is so bad in California is that our state welfare and health programs are more generous and extravagant than any other states offer. We do not have accurate data about how much illegal immigrants pay in state taxes that might offset some of these expenses, but I have a hard time believing that the incoming taxes can be sufficient to offset the outflow, especially with a figure like half a billion dollars in just one county and just one program. How can the taxpayers of California continue to bear this burden? How can so many policymakers close their eyes to the tremendous impact of illegal immigration on our government services?

TAX TIPS

*****Tax Days: April 15 and April 17*****

We are accustomed to filing our income tax returns on April 15th each year, but this year we have an extra two days. The 15th falls on a Sunday, so the deadline would have been extended to Monday the 16th normally. But, Monday the 16th is an official government holiday called Emancipation Day in the District of Columbia. On that day in 1862, President Lincoln signed into law the Compensated Emancipation Act freeing about 3,100 slaves held in D.C. and signaling that he was planning to free all slaves nine months hence with the Emancipation Proclamation. However, this legislation was the only act providing payment to people who had been enslaved. A federal law passed decades ago provides that official D.C. holidays that affect tax deadlines apply nationwide. Unfortunately, the coincidence of the dates this year was not noticed until after most tax documents were printed, so many official forms do not have the correct due date printed on them. The same timing will occur again in 2011—perhaps that is enough time for the government to plan its printing correctly.

The California Franchise Tax Board will also recognize the deadline as April 17th, along with the United States Treasury, even though the FTB will be at work on the 16th.

How did the IRS choose April 15th as the day Americans have come to dread? When the 16th Amendment, which allowed Congress to institute the income tax, was adopted on February 3, 1913 Congress chose March 1—about a year after the ruling—as the deadline for filing income taxes. (The 16th amendment was a direct consequence of the U.S. Supreme Court's decision in *Pollock v. Farmers' Loan & Trust Co.*, whereby an attempt by Congress the previous year to tax incomes uniformly throughout the U.S. was ruled unconstitutional.) Later, with the Revenue Act of 1918, Congress moved the date to March 15th. The next change came in 1955 when Congress moved the date again, this time to April 15th. In a *Fortune Magazine* article published in the April 15, 2002 issue, an IRS spokesman said that the date change was intended to “spread out the peak workload.” Apparently, people were waiting until the last minute in March to file and the government thought that giving an extra month would mean people would file throughout the first quarter of the year. Turns out that has not really happened; many people still wait until the last minute and inundate the IRS. Additionally, by 1955 the income tax had come to apply to more of the middle class who had their taxes taken out by paycheck withholding. By pushing the due date back to April 15th, the government was able to hold onto more of their money longer. Keep that incentive in mind when you decide when to file your tax return next year.

*****Interest Outrage*****

The Franchise Tax Board just announced that when taxpayers underpay their taxes the state will charge them 8% interest, but if the government keeps your money beyond what it should, then you will be paid only 5% interest. This is not news; the government announces this every year, and it frosts me every time. This is blatantly unfair, but the legislature does not want to correct this injustice. I can understand setting the interest rate high to encourage people to pay their taxes on time, but should not the government have the same incentive to refund people their money in a timely manner?

*****Underground Economy*****

We all know people who are paid cash under the table, or who strike a deal with merchants to not pay sales tax, and we all suspect such transactions are multiplied many times over by the illegal immigration problem. *Baron's Magazine* in 2005 estimated the U.S. "underground economy" to be \$970 billion or nearly 9% that of the legitimate economy with a growth rate the same or greater than the above ground economy. Those numbers are staggering and may even be an underestimate. To help bring the underground economy above ground, I am hosting my sixth annual Underground Economy Conference with the Foundation for Fair Contracting on May 3, 2007 at the State Capitol in Sacramento, Room 4202 from 8:30 a.m. to 4:30 p.m. Speakers include representatives from the Board of Equalization, the Employment Development Department, Franchise Tax Board, Department of Insurance, Contractors State License Board and the Division of Labor Standards Enforcement. This conference is an opportunity for concerned parties to share information and resources across agencies and industries, as well as identify new trends and schemes by offenders. If you are interested in attending this free conference, call my office at (916) 445-2181.

MISCELLANY

*****A Good Read*****

You will either hate or love Mark Steyn's book "America Alone." Either way, move past his rhetoric and consider his points about the new world order of the 21st century. The first part is about the population growth in the Muslim world versus the population decline in the European world. While population changes are difficult to extrapolate, we can already see that the next world generation will be more Muslim throughout Europe as well as the Middle East and Southeast Asia.

The second part makes the challenging argument that it is not population growth alone that will change the world, but that the West has lost the will to compete or prevail. "Will" is the key. Steyn explains that Europe has lost the will and is now suffering the consequences of a cultural invasion that does not recognize Western values and is willing to impose its values on the rest of the community. So it is left up to America and Americans to have the willpower to stand up for America's values. Steyn's answer to the often asked question about our exit strategy for Iraq is a quote from President Bush: "The survival of liberty in our land increasingly depends on the

success of liberty in other lands.” America is not alone in the world, but America may be alone in the fight for liberty and values of freedom everywhere.

“America Alone” closes with a great story from a century ago. Arthur Conan Doyle, of Sherlock Holmes fame, spent several years in Egypt and in 1898 published *The Tragedy of the Korosko* about a tourist group kidnapped by terrorists. One of the heroes of the book spoke for all of Britain (and hopefully for America) when he said: “I think that behind national interests and diplomacy and all that there lies a great guiding force --a Providence, in fact -- which is forever getting the best out of each nation and using it for the good of the whole. When a nation ceases to respond, it is time that she went into a hospital for a few centuries, like Spain or Greece -- the virtue has gone out of her. A man or a nation is placed upon this earth to do merely what is pleasant and what is profitable. It is often called upon to carry out what is both unpleasant and unprofitable, but if it is obviously right it is mere shirking not to undertake it.” America does have a better system, better culture, more freedoms, better government, more religion than our enemies, and there is every reason not to hide that under a bushel basket.

BOE AND LEGISLATIVE DATES

April 24-25, 2007 --- Board of Equalization meets in Sacramento.

April 27, 2007 --- Last day for policy committees to hear and report fiscal bills for referral to fiscal committees (J.R. 61(a)(2)).

May 28, 2007 --- Memorial Day observed

May 31, 2007 --- Board of Equalization meets in Sacramento.

June 1, 2007 --- Board of Equalization meets in Sacramento.

June 8, 2007 --- Last day to pass bills out of house of origin (J.R. 61(a)(8)).

June 15, 2007 --- Budget Bill must be passed by midnight (Art. IV, Sec. 12(c)).

June 19-21, 2007 --- Board of Equalization meets in Culver City.

NOTABLE DATES/ HISTORY

April 9, 1865 --- Confederate General Robert E. Lee surrendered his troops to Union General Ulysses S. Grant at Appomattox, Virginia, leading to the end of the Civil War. This was just five days after President Abraham Lincoln walked the streets of the Rebel capitol of Richmond, Virginia.

April 11, 1970 --- Apollo 13 blasted off toward the moon, but an explosion two days later forced astronauts to abort the mission and overcome extreme obstacles to return to earth.

April 12, 1861 --- The American Civil War began when Confederate troops opened fire on the Union's Fort Sumter in South Carolina's Charleston Bay.

April 12, 1955 --- Physician Jonas E. Salk's polio vaccine was released for general use in the United States.

April 13, 1860 --- The first Pony Express rider reached Sacramento.

April 15, 1865 --- U.S. president Abraham Lincoln died after being shot the previous night at Ford's Theatre in Washington, D.C. Vice President Andrew Johnson was sworn in as president.

April 16, 1922 --- Annie Oakley set a record by breaking 100 clay targets in a row.

April 17, 1492 --- Christopher Columbus signed a contract with Spain, giving him a commission to seek a westward passage to Asia.

April 17, 1961 --- The U.S.-backed Bay of Pigs invasion occurred with the intent of overthrowing Fidel Castro's government. The plan failed when the invaders were killed or captured.

April 17, 1969 --- Sirhan Sirhan was convicted of assassinating Senator Robert F. Kennedy the previous June.

April 18, 1775 --- Paul Revere and William Dawes began their legendary midnight ride to warn colonists that British troops were approaching.

April 19, 1775 --- The American Revolution began with the "shot heard 'round the world" fired by British troops at Lexington, Massachusetts. To learn more and see photos, check out this site: <http://www.nps.gov/mima/>

April 19, 1982 --- Sally Ride of California was the first woman selected for the NASA program.

April 19, 1993 --- After a 51-day siege, federal agents raided the Branch Davidian compound in Waco, Texas. About 80 Branch members and leader David Koresh were killed after a fire broke out.

April 19, 1995 --- A truck bomb exploded outside the Alfred P. Murrah federal building in Oklahoma City, Oklahoma, killing 168 people.

April 20, 1812 --- George Clinton became the first vice president of the United States to die during his term of office.

April 21, 1836 --- General Sam Houston and his army of Texans defeated Mexican forces in the Battle of San Jacinto, winning independence for Texas and making famous the battle cry "Remember the Alamo."

April 22, 1864 --- Congress authorized the use of the phrase, “In God We Trust” on U.S. coins.

GENERAL TAX INFORMATION

For answers to your general tax questions, call the Board of Equalization information center. Customer service representatives are available to help you from 8:00 a.m. to 5:00 p.m. Pacific time, Monday through Friday (except state holidays).

Toll-free number: 800-400-7115
TDD service for the hearing impaired
TDD phones: 800-735-2929
Voice phones: 800-735-2922

To reach the Taxpayer Rights Advocate’s office for assistance with any BOE issues, see <http://www.boe.ca.gov/tra/tra.htm>, or call toll-free 1-888-324-2798.

HOW TO CONTACT ME

Bill Leonard, Member
State Board of Equalization, Second District
Email: bill.leonard@boe.ca.gov

Northern California Office:

400 Capitol Mall, Suite 2340
Sacramento, CA 95814
Telephone: (916) 445-2181
Fax: (916) 327-4003

Southern California Office:
4295 E. Jurupa Ave., Ste. 204
Ontario, CA 91761-1428
Telephone: (909) 937-6106
Fax: (909) 937-7044